Appreciation is gratefully acknowledged to the members of my committee, Professors Reginald Rushing, Arthur T. Roberts, John A. Ryan, and Lester S. Levy, for their constructive criticism.

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CHAPTER I

INTRODUCTION

Purpose and Scope of Thesis

The use of trading stamps in the American retail business had its beginning in the 1890's.[1] Since that time, the use of trading stamps, as a premium device, has grown with appalling vigor. By the end of 1956 something close to $35 billion of retail sales were covered by trading stamps, and at least fifty per cent of the American families were saving trading stamps.[2] Despite this phenomenal growth, accounting literature has virtually ignored the accounting aspects of trading stamps. The purpose of this thesis is to supplement accounting literature relating to trading stamps.

The study for this thesis delved into marketing, legal, and accounting aspects of trading stamps to disclose written clues to the theory and methods of accounting for trading stamps. Based on the findings of the study of marketing, legal, and accounting aspects of trading stamps, this thesis will attempt to set forth the proper handling and classification of trading stamps for accounting records,

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[1]Albert Haring and Wallace O. Yoder, Trading Stamp Practice and Pricing Policy (Bloomington, 1957), p. 1.

[2]Ibid.

financial statements, and proper internal control.

Forecast of General Plan of Thesis

This thesis is organized into eight chapters. The first chapter is the outline of the problem, which consists of the purpose and scope, review of previous research on the problem, basic features of trading stamp plans, and definition of terms. The second chapter attempts to set forth the proper accounting for the acquisition of trading stamps. The next three chapters seek a suitable classification for the cost of trading stamps issued. The sixth chapter endeavors to present an appropriate statement presentation for trading stamps. The seventh chapter is concerned with some internal control aspects of trading stamps. The final chapter presents the summary and conclusions based on the information presented in the thesis.

Review of Previous Research

In a search for literature pertaining to trading stamps, a study entitled "The Accounting for Trading Stamps," by Dr. Sidney I. Simon was secured.[3] Dr. Simon delved into the legal decisions rendered on trading stamps in an effort

[3]Sidney I. Simon, "The Accounting for Trading Stamps," The Accounting Review, XXXII (July, 1957), p. 398. Hereafter cited as Simon, "Accounting for Trading Stamps."

to discover written clues to the theory and methods of accounting for trading stamps. Dr. Simon's study revealed that the strongest arguments advanced by those defending the practice of issuing trading stamps are grounded in accounting theory. In ending his fine paper, Dr. Simon expressed the need for further study in this field.

Basic Features of Trading Stamp Plans

Before pursuing the theoretical aspects of trading stamps further, a brief resume of how trading stamp plans operate is in order. There are numerous trading stamp plans, all of which have distinctive features. Basically, however, trading stamp plans usually operate in the following manner. The trading stamp company and the retailer enter into an agreement which gives the retailer a franchise contract to use the trading stamp company's particular stamp. The trading stamp company furnishes the retailer with the necessary supplies for operating the stamp plan, such as the stamps, the stamp-saver books, and premium merchandise catalogues. The retailer distributes the stamps at the rate of one stamp for each ten cents received in cash at the time of sale or to be received in cash before the fifteenth of the month following the retail sale. The ultimate consumer pastes the stamps in a book secured from the retailer. When the book is filled with 1,200 stamps,

the ultimate consumer takes it or mails it to a redemption center maintained by the stamp company, and exchanges it for cash or merchandise.

Most trading stamp plans provide for stamps to be sold by the stamp company to the retailer on a "non-redemption" basis. The retailer, under this plan, pays a fixed fee for a quantity of stamps. Once the retailer issues these stamps to the ultimate consumer, he (the retailer) has no further interest in the trading stamps.

Definition of Terms

The following terms are defined to aid the reader in the interpretation of this thesis. Several of these terms are quite common in the accounting profession, but many people have slightly different definitions for the terms. The definitions are presented here to provide all readers with a common conception of each term as used in this thesis.

Retailer or Retail Store. A business firm which sells directly to the ultimate consumer.

Trading Stamp. A small piece of paper inscribed with a trade name and/or symbol on the face and with gummed adhesive on the back so that consumers may accumulate stamps (usually in books) and exchange them for premiums (in some cases, for cash). Companies use various terms which are

virtually synonymous, such as: gift stamps, discount stamps, saving stamps, thrift stamps, and premium stamps.[4]

Asset.[5] An item or source of wealth, expressed in terms of its cost; hence, any cost benefiting a future period.

Deferred Charge. An expenditure not recognized as a cost of operations of the period in which incurred, but carried forward to be written off in one or more future periods.

Inventory. Any class or group of materials or supplies not yet expensed or capitalized.

Account. A formal record of a particular type of transaction expressed in money or other unit of measurement and kept in a ledger.

Revenue. Sales of products, merchandise, services, and earnings from interest, dividends, rents, and wages.

Debit. A bookkeeping entry or posting recording the creation of or addition to an asset or an expense, or the reduction or elimination of a liability, credit valuation account, or item of net worth or revenue.

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[4]Harvey L. Vredenburg, Trading Stamps (Bloomington, 1956), p. 6. Hereafter cited as Vredenburg, Trading Stamps.

[5]The following definitions were taken from Eric L. Kohler, A Dictionary for Accountants (1st ed.; New York, 1952). Hereafter cited as Kohler, A Dictionary for Accountants.

Credit. A bookkeeping entry recording the reduction or elimination of an asset or an expense, or the creation of addition to a liability or item of net worth or revenue.

Contra Sales Account. An account which partially or wholly offsets the sales account.

Gross Sales. Total sales, before deducting the contra sales account.

Accounts Receivable. A claim against a debtor, generally an open account, often limited to uncollected amounts of sales of goods and services.

Balance Sheet. A statement of financial position of any economic unit, disclosing as at a given moment of time its assets, at cost, depreciated cost, or other indicated values, its liabilities, and the equity of owners.

Income Statement. A summary of the revenues and expenses of an accounting unit, or group of such units, for a specified period.

Accounting Period. The period of time for which an operating statement is customarily prepared.

Cash Discount. An amount allowed for the prompt settlement of a debt arising out of a sale.

Prepaid Expense. An expenditure often recurrent for benefits yet to be received. The title of a balance sheet item representing the portion of such outlays for benefits carried into the next accounting period or periods.

CHAPTER II

ACCOUNTING FOR THE ACQUISITION OF TRADING STAMPS

Retailers purchase trading stamps in varying volumes depending upon their expected needs. Some retailers may buy sufficient stamps to last several months. Other stores may purchase for their immediate needs. In any of these situations, the trading stamps held to be issued represent an asset which should be accounted for as such. The type of asset classification which should be extended trading stamps will be discussed in Chapter VI.

Purchasing Considerations

The retailer, before ordering his trading stamps, should attempt to determine what his trading stamp needs will be. If the retailer has been in business for a length of time and has followed the practice of issuing trading stamps, he will be able to determine his needs by referring to past periods and considering any imminent changes which may arise.

The retailer who is just beginning business will have to base his needs on his expectations and the information that he can secure from his competitors.

Two important factors to be considered by the retailer in determining the size of his order for trading stamps are: (1) trading stamp companies are very prompt in servicing

their franchise retailers, and (2) volume discounts are offered by several trading stamp companies on larger orders.[1] The first consideration is important if the retailer is a small operator desiring to purchase for his immediate needs. Because of the promptness of the trading stamp companies in serving their franchise retailers, the need for purchasing stamps for long periods of time is lessened. The second consideration is important in considering the most profitable method of employing the firm's funds. The retailer should determine whether the discount for large orders will compensate for having funds tied up in trading stamps, or if his funds could be used more profitably in other merchandise or in some other type of investment. This consideration will be paramount in cases where the funds for purchasing the stamps are secured through borrowing. The discount for large purchases should be greater than the cost of borrowing the funds, otherwise no benefit accrues from purchasing in large orders.

Recording the Purchase of Trading Stamps

Once the size of the order has been determined and the stamps purchased, the proper recording of the trading stamps acquisition should be considered. The retailer

[1]This information was secured from confidential sources.

should debit a current asset account, or a deferred charge account, and credit cash or accounts payable for the net cost of the trading stamps. General journal entries for recording the acquisition of trading stamps under the two concepts are as follows:

Trading Stamps as a Current Asset:

Trading Stamps	xxxxx	
Cash or Accounts Payable		xxxxx
To record the purchase of trading stamps.		

Trading Stamps as a Deferred Charge:

Trading Stamps	xxxxx	
Cash or Accounts Payable		xxxxx
To record the purchase of trading stamps.		

The current accounting theory concerning whether to handle the purchase of trading stamps as a current asset or a deferred charge is presented in Chapter VI.

There are two reasons for not expensing the trading stamps when purchased. The accounting process of measuring periodic income depends upon the recognition of an expense in the period incurred. An expense has not been incurred until these trading stamps have been issued with a sale of merchandise or service. Correct income determination requires that an expense or deduction from revenue be taken

against the revenue to which it applies.[2] The cost of trading stamps becomes an expense or deduction from revenue in the period in which issued, and should apply against the revenue received at the time of issuance.

The second reason for not expensing the cost of trading stamps at the time of purchase is that any expenditure which benefits future revenue should be shown as an asset on the balance sheet.[3] Trading stamps, at the time of acquisition, represent an expenditure which will benefit future revenue. The financial position of the retail firm would be misstated if trading stamps held for issuance were not shown as an asset.

The following example is given to illustrate the reasons for not expensing trading stamps when purchased:

> Mr. "A" owns a retail grocery store. His retail sales were declining because other retail grocery stores were issuing trading stamps to their customers

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[2]W. A. Paton and A. C. Littleton, An Introduction to Corporate Accounting Standards (Michigan, 1940), p. 65. Hereafter cited as Paton and Littleton, An Introduction to Corporate Accounting Standards; Morton Backer, ed., Handbook of Modern Accounting Theory (New York, 1955), p. 224; H. A. Finney and Herbert E. Miller, Principles of Accounting-Introductory (5th ed.; New Jersey, 1957), p. 364. Hereafter cited as Finney and Miller, Principles of Accounting - Introductory.

[3]Paton and Littleton, An Introduction to Corporate Accounting Standards, p. 57; J. F. Sherwood, A. B. Carson and Clem Boling, College Accounting (6th ed.; Cincinnati, 1957), p. 146. Hereafter cited as Sherwood, Carson, and Boling, College Accounting.

> while he was not. On December 26, 1957, Mr. "A" decided to start issuing trading stamps beginning January 1, 1958. On December 28, 1957, Mr. "A" purchased a three months supply of trading stamps. Mr. "A" closed his accounting records as at December 31, 1957. In determining his net income for 1957, Mr. "A" deducted the cost of the trading stamps from his 1957 revenue. Likewise, the trading stamps were omitted in the preparation of his statement of financial position.

An analysis of this case should indicate that Mr. "A"'s net income of 1957 and his financial position as of December 31, 1957 have been understated by the cost of the trading stamps which were charged against the 1957 revenue.

Upon issuing trading stamps with the sale of merchandise or service, an expense or contra sales account should be debited and the current asset or deferred charge account should be credited. This entry should be made at the close of each accounting period.

CHAPTER III

TRADING STAMPS AS A CASH DISCOUNT

The present chapter will be concerned with the question of whether or not the cost of the trading stamps issued with the sale of merchandise or service may be classified and handled as a cash discount. In an effort to seek an answer to this question, the writer will examine the theoretical aspects of this concept by setting forth the marketing, legal, and accounting aspects of trading stamps as a cash discount.

Marketing Aspects

Mr. Frank P. Rossi, in a speech before the Harvard Marketing Club, made the following statements concerning trading stamps as a cash discount:

> While the use of stamps is essentially promotional, what is the basic - the original - idea behind trading stamps? It is essentially very simple. All that it really adds up to is extending the usefulness of a familiar idea - the discount for the payment of cash. As far back as any of us can remember manufacturers have received such a discount from suppliers. They in turn make one available to wholesalers; and the wholesaler makes one to the retailer. The ultimate consumer was for long the only one left out of the chain. By introducing a unit of exchange small enough to enable the retailer to give a discount on small purchases, the trading stamp extended the benefit to the ultimate consumer. We all realize of course, that a cash discount like credit does have a promotional

function.[1]

Dr. Lee Bidgood also supported this contention when he stated:

> Trading stamps offer to the retailer a method of giving a cash discount even on sums as small as a dime.[2]

Do Mr. Rossi's and Dr. Bidgood's statements agree with the marketing definition of a cash discount? A cash discount, as defined in several marketing textbooks, is a reduction in price allowed the buyer for prompt payment.[3] The cash discount is generally granted in the mercantile field whenever goods are sold on credit, as a means of stimulating advance payment of bills.[4] The term "cash

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[1]Frank P. Rossi, "An Address to the Harvard Marketing Club," reprinted in the Sperry and Hutchinson Company, Trading Stamps and Free Competition (Cambridge, 1957), p. 2. Hereafter cited as Rossi, Trading Stamps and Free Competition.

[2]Lee Bidgood, "Unlimited Competition is the American Way," Hearings before the Circuit Court of Jefferson County on the Constitutionality of City and State Legislation Taxing Operations of Trading Stamp Companies, (Alabama, 1957).

[3]Floyd L. Vaughn, Marketing (New York, 1942), p. 351. Hereafter cited as Vaughn, Marketing. Paul H. Nystrom, ed., Marketing Handbook (New York, 1954), p. 204. Hereafter cited as Nystrom, Marketing Handbook. Charles F. Phillips, Marketing (Boston, 1938), p. 574. Hereafter cited as Phillips, Marketing.

[4]Harold H. Maynard and Theodore N. Beckman, Principles of Marketing (5th ed.; New York, 1952), p. 518. Hereafter cited as Maynard and Beckman, Principles of Marketing.

discount" is a misnomer in so far as it is taken to mean that the discount is taken when cash is paid at the time of receiving the goods.[5]

The cost of trading stamps issued to debtors for prompt payment of their bills may properly be classified as a cash discount under the marketing definition of a cash discount. However, as indicated in the marketing discussion of a cash discount, it would be a misnomer to classify the cost of trading stamps issued with a cash sale as a cash discount.

Marketing justifies a cash discount on the grounds that it gives the seller quicker possession of the money which can be turned over again and also reduces the credit and moral risks.[6] This statement suggests that trading stamps issued with cash sales should not be classified as a cash discount since the issuing of trading stamps with cash sales does not give the seller quicker possession of money.

A cash discount is usually equivalent to a very high rate of interest.[7] Using this as a criterion, trading stamps would qualify as a cash discount. At the rate of

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[5]Nystrom, Marketing Handbook, p. 204.

[6]Maynard and Beckman, Principles of Marketing, p. 518.

[7]Phillips, Marketing, p. 574.

one stamp for each ten cent purchase, a person would receive 1,200 stamps on the purchase of $120.00 of merchandise. Twelve hundred stamps usually constitute a completely filled book with a market value of $2.50. This is equivalent to a 2.08% cash discount. Let us assume a sale under the terms 2.08/10, net 30 days. This means that if a purchaser pays for the goods within 10 days from date of invoice, he will receive a 2.08% discount to be deducted from the amount billed on the invoice. If, on the other hand, he waits the full 30 days and pays his bill at expiration of the net credit period, he must pay the full amount of the bill. Thus, by paying 20 days earlier, the purchaser receives the benefit of a 2.08% discount. Receiving a 2.08% discount for a period of 20 days is the equivalent of earning interest on the amount involved in the transaction at the rate of 37.44% per annum.

The question arises, should trading stamps issued for payment on or before a set date be regarded as a cash discount, while trading stamps issued with cash purchases are not? A retailer following the practice of extending credit along with cash sales will find himself having to regard stamps issued with the credit sales as a cash discount. The trading stamps issued with cash sales would have a different classification and require different handling.

Legal Aspects

Trading stamps have been the prime object of much litigation since their introduction into the field of marketing. Trading stamps have been attacked from several different legal aspects, three of which are The Fair Trade Act, The Unfair Practice Act, and The Motor Fuel Act. The essence of these acts is to require prices which are fair to the manufacturer, the retailer, and the consuming public.[8] One of the principal issues debated in the cases dealing with these laws involves the question of whether the issuance of trading stamps by retailers with the sale of merchandise for cash constitutes an illegal price reduction.

In the case of Sperry and Hutchinson Company versus Hoegh, the plaintiff (Sperry and Hutchinson Company) contended that its trading stamp plans was in practice a method of giving the familiar discount of about 2% for cash purchases on payments made within a normal discount period.[9] The defendants in this case introduced evidence mainly directed to prove that the plaintiff's trading stamp plan was not a "cash discount", but was a violation of the Iowa

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[8]Ronald A. Anderson, Dwight A. Pomeroy, and Walter A. Kumpf, Business Law (4th ed.; Cincinnati, 1952), p. 99; Vaughn, Marketing, p. 257; Maynard and Beckman, Principles of Marketing, (5th ed.), p. 687.

[9]Sperry and Hutchinson Company v. Hoegh, 65 NW (2) 410 (Iowa, 1954). Hereafter cited as Sperry and Hutchinson Company v. Hoegh.

Gift Enterprise Statutes.[10] The essence of the Iowa Gift Enterprise Statutes, as related to trading stamps, is the prevention of schemes whereby a seller of merchandise would issue trading stamps to purchasers redeemable by someone other than the seller.[11] Evidence was submitted by the defendant that the normal net profit in a cash food business was about 2% of sales, therefore, the issuance of trading stamps results in increasing the cost to the consumer. The defendant was able to prove the plaintiff's stamp plan was a violation of the Iowa Gift Enterprise Statutes, whether it be a cash discount or not.[12]

Several court decisions have been rendered disclosing that the practice of issuing trading stamps with the purchase of merchandise is the equivalent of a cash discount. In the case of Food and Grocery Bureau of Southern California versus Garfield, the opinion states:

> It is well settled by the decision of this court, as well as those in other jurisdiction, that the practice of merchants in issuing trading stamps with the purchase of articles is merely a method of discounting bills in consideration for immediate payments of cash.[13]

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[10] Sperry and Hutchinson Company v. Hoegh.

[11] Ibid.

[12] Ibid.

[13] Food and Grocery Bureau of Southern California v. Garfield, 226 Pac. (2) 125 (California, 1942).

The opinion rendered in the Sperry and Hutchinson Company versus Hudson case states:

> In the operation of plaintiff's system, merchandise sold to cash customers is at the regular, established retail prices, the purchaser paying for each article of merchandise the same price required to be paid by those buying on credit. Of course, the primary purpose of this discount system is to encourage cash transactions. It is not necessary to detail the many advantages accruing to the merchant from cash dealings. To give a discount for cash payments is a long-established mercantile practice. The manufacturer allows such discount to the jobber and wholesaler, and the jobber and wholesaler, to the retailer. To pass this on to the customer of the retailer is but providing a benefit to him who, in the last analysis, pays all bills.[14]

In Sperry and Hutchinson Company versus Margetts, the opinion states:

> Plaintiff's "cooperative discount system" is in aid of what has come to be the normal cash discount and the only practical means to that end where there are intermittent purchases of small lots. Not long after the inception of the device, it was judicially assessed as merely one way of discounting bills in consideration for immediate payment in cash, which is a common practice of merchants, and is doubtless a popular method, and advantageous to all concerned and it is not obnoxious to public policy. Although the business is now country-wide, there has been no change in make or method that has materially altered this concept.[15]

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[14] Sperry and Hutchinson Company v. Hudson, 226 Pac. (2) 501 (Ore. 1951).

[15] Sperry and Hutchinson Company v. Margetts, 104 Atl. (2) 310 (N.J. 1954).

Other cases could be cited which agree with the preceding opinions, but it is interesting to note that an opinion rendered in 1956 in connection with the Colgate - Palmolive Company versus Dichter, Inc., states that trading stamps include a trade discount as well as a discount for cash. The opinion further states that:

> Trading stamps have no value unless and until a purchaser fills a whole book. The average customer of a supermarket purchases about $4 worth of goods at a time and gets no cash discount for this alone. He earns his discount by visiting retailers of a particular trading stamp company enough more times to spend $120. This is a direct quantity discount paid retroactively like a quota discount, even though it may be said that it includes a discount for cash.[16]

An analysis of these cases indicates the tendency of the courts to view the practice of retailers in issuing trading stamps with the sale of merchandise as a method of granting a cash discount. However, in the Colgate - Palmolive Company versus Dichter, Inc. case, the court takes a different view. Since this is a recent case, the question arises as to whether the courts will take a different view on the trading stamp question in the future?

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[16] Colgate - Palmolive Company v. Dichter, Inc., 142 Fed. Sup. 545 (1956). Hereafter cited as Colgate - Palmolive Company v. Dichter, Inc.

Accounting Aspects

The accounting definition of a cash discount is:

> An amount allowed for the prompt settlement of a debt arising out of a sale.[17]

The accounting definition of a cash discount, like the marketing definition, would include only trading stamps issued for prompt settlement of an invoice. Trading stamps issued with cash purchases would not be a cash discount. However, Mr. W. A. Paton states:

> The cost of coupons issued should be charged against current revenue, which should not be neglected in the preparation of the statements. The issuance of coupons or stamps is equivalent to granting an outright discount or allowance and should be handled accordingly.[18]

Assuming that the cost of trading stamps issued could be classified as a cash discount, this phase of the thesis will attempt to set forth the proper handling of this cost.

Through the history of accounting, three concepts have been used in the accounting for cash discounts. At the turn of the 20th century, it was an accepted accounting concept to debit the customer and credit sales with the

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[17]Kohler, A Dictionary for Accountants, p. 78.

[18]William A. Paton, Essentials of Accounting (New York, 1949), p. 351. Hereafter cited as Paton, Essentials of Accounting.

gross amount of the invoice. At the time of recording the sale, no isolation was made for the discount offered for prompt payment. When the bill was collected within the discount period, the customer was credited with the gross amount and sales discount was debited with the difference between cash collected and the gross amount of the bill. The sales discount account was treated as is interest and discount paid the bank, that is, as a cost of obtaining the needed working capital.[19] If the customer failed to pay in time to obtain the cash discount, no problem arose since the full amount of the collection was debited to cash and credited to the customer's account.

The second concept, like the first, records the gross amount of the invoice, with no isolation at the time of sale for the discount offered for prompt payment.[20] The second concept differs from the first in the disposition of the sales discount account. Instead of regarding the sales discount as an expense, the second concept requires that the sales discount account be deducted from gross sales to obtain net sales. Again, as in the first concept, no problem arises if the customer fails to pay in time to obtain the cash discount.

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[19]Henry Rand Hatfield, Modern Accounting (New York, 1919), p. 288.

[20]Paton, Essentials of Accounting, p. 335.

The third concept is to debit the customer and credit sales for the net amount of the invoice.[21] In this case no special account or adjustment is required for all cases in which discounts are taken. In cases where the discount is neglected, the amount of the discount must be recognized as a special revenue. This special revenue may be viewed as offsetting in part the additional cost incurred in handling slow accounts and losses arising from failure to collect.[22] The following example is given to illustrate the handling of a sale under the third concept:

> The "X" retailer sold $500 of merchandise to Mr. "A" based on the following terms: 2/10, n/30. The "X" retailer recorded this sale by debiting accounts receivable and crediting sales for $490 (sales price less discount). If Mr. "A" renders payment within the discount, he will have to pay only $490. The "X" retailer, therefore, will debit cash and credit accounts receivable. If Mr. "A" fails to render payment within the discount period, then he will have to pay $500. The "X" retailer, in this situation, will debit cash for $500, credit accounts receivable for $490, and credit a special revenue account for $10.

The second and third concepts are presently viewed by the accounting profession as theoretically acceptable.[23]

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[21]Paton and Littleton, An Introduction to Corporate Accounting Standards, p. 56.

[22]Paton, Essentials of Accounting, p. 335.

[23]Simon, "The Accounting for Trading Stamps," p. 401; Kohler, A Dictionary for Accountants, p. 78; Finney and Miller, Principles of Accounting - Introductory, p. 92.

The first concept is viewed with skepticism.[24]

The second concept would require that a contra sales account be debited and that the current asset or deferred charge account be credited. Net sales would be obtained by deducting the cost of trading stamps issued from the corresponding gross sales.

The third concept would necessitate that cash or accounts receivable be debited for the full amount of the sale, the current asset or deferred charge account would be credited for the difference. In cases where the stamps were refused, the cost of the trading stamps, which were refused, should be credited to a special revenue account.

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[24]Paton and Littleton, An Introduction to Corporate Accounting Standards, p. 56; Kohler, A Dictionary for Accountants, p. 78.

CHAPTER IV

TRADING STAMPS AS A TRADE DISCOUNT

A second possible method of handling and classifying the cost of trading stamps issued is as a trade discount. Marketing, legal, and accounting literature was studied for the theoretical aspects of this method.

Marketing Aspects

Mr. Phillips defines a trade discount as the term used to designate the discounts granted by a manufacturer to the various trade groups to whom he sells.[1] Mr. Phillips further states that the theory for granting these trade discounts is based on the assumption that wholesalers perform certain services for the manufacturer which justify a lower price than is offered to retailers.[2] This means that it costs the manufacturer less to sell to the wholesaler than it does to the retailer.

In comparing the issuance of trading stamps with Mr. Phillips' definition of a trade discount, we find that trading stamps are not issued by the manufacturer, but by the retailer. Trading stamps, based on Mr. Phillips' definition, should not be classified as a trade discount.

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[1]Phillips, Marketing, p. 562.

[2]Ibid.

Maynard and Beckman also stated that it is customary for manufacturers, wholesalers, and other wholesale venders to quote prices to their customers in the form of list prices from which one or more discounts are deducted before the actual selling price is determined.[3] Again, the retailer is not mentioned in describing those who grant trade discounts.

The basis for granting a trade discount is to compensate the distributors for the performance of their functions by providing a gross margin. Trading stamps are issued to the ultimate consumer who does not act as a distributor, nor does he perform any major service in the distribution of products.[4] Thus, it seems apparent that the marketing theory for the granting of a trade discount does not include the cost of trading stamps issued with sale of merchandise at the retail level.

Legal Aspects

Early court decisions, as noted in Chapter II, contend that the issuance of trading stamps with the sale of

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[3]Maynard and Beckman, Principles of Marketing, p. 661.

[4]This thesis does not intend to ignore the fact that the ultimate consumer, in several situations, serves himself, pays cash, and takes care of delivery, all of which relieves the retailer of certain marketing cost. However, it is felt that these services do not constitute major distribution services.

merchandise constitutes the granting of a cash discount to the purchaser.

In the Colgate - Palmolive Company versus Dichter, Inc. case, the court did not fully agree with previous decisions, but stated that the issuance of trading stamps included a trade discount as well as a discount for cash.[5] As set forth in Chapter II, the court stated that a purchaser earns his discount by visiting the retailer issuing a particular stamp enough times to spend $120. This, the court concluded, is a direct quantity discount,[6] paid retroactive like a quota discount, even though it may be said that it includes a discount for cash.

The court further insisted that trading stamps are more effective in increasing volume of sales than is an ordinary discount for cash. The court proceeded further to cite "double stamp days" to substantiate its opinion that the issuance of trading stamps included the granting of a trade discount. As previously stated, the court said that the issuance of trading stamps constitutes a quantity discount, and from this concluded that the issuance of trading stamps constitutes a trade discount. The court's reasoning

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[5] Colgate - Palmolive Company v. Dichter, Inc.

[6] Marketing makes a distinction between trade discounts and quantity discounts. However, the Judge in the Colgate - Palmolive Company v. Dichter, Inc. case viewed trade discount, quantity, and quota discount as being synonymous.

does not seem to agree with the marketing definition of a trade discount. The fact that trading stamps increase sales volume does not present a conclusive reason for stating that the issuance of trading stamps constitutes a trade discount.

Accounting Aspects

The discount allowed on a list price before consideration of credit terms is called a trade discount.[7] Finney and Miller state that entries should not be made in the accounts for trade discounts; entries for sales and purchases should be made at the sale price.[8] The reason accounting ignores trade discounts in recording sales and purchases is that trade discounts are merely a method of quoting a price to the purchaser.[9] Thus, trade discounts have no meaning in the accounts of either the seller or the purchaser.

Relating trading stamps to the accounting definition of a trade discount seems to indicate that the issuance of trading stamps with the sale of merchandise would not

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[7]Kohler, A Dictionary for Accountants, p. 426.

[8]Finney and Miller, Principles of Accounting, p. 91.

[9]The practice of giving trade discounts was introduced because of the need of a method of quoting prices without having to change the company's catalogues with every price change.

constitute a trade discount. Accounting views trade discounts as a means of quoting a sales price. There seems to be little justification in assuming that trading stamps are issued with the sale of merchandise as a means of quoting a selling price. Retailers, who follow the practice of issuing trading stamps, issue these stamps with every purchase regardless of price. Purchasers, who do not accept the trading stamps, do not receive any adjustment in the sale price of the product.

The accounting method of handling trading discounts will not fit the issuance of trading stamps. Trading stamps, unlike trade discounts, are significant costs which should be recorded in the accounts. Also, proper ledger balance requires that trading stamps be recorded in the accounts.

CHAPTER V

TRADING STAMPS AS AN ADVERTISING EXPENSE

A third possible method of handling and classifying the cost of trading stamps issued is as an advertising expense. In this chapter marketing, legal, and accounting literature was studied in an effort to uncover the theoretical aspects of this method.

Marketing Aspects

Mr. Charles F. Phillips, in a testimony before the Sub-Committee on Consumers Study of the House Committee on Agriculture, made the following statements in answer to the question of whether trading stamps are a form of unfair competition:

> To achieve the prospective essential for an objective answer to this question, we must recall that, essentially, the trading stamp is a promotional device. Futhermore, as a means of attracting customers to a store the trading stamp is in competition with many other means of promotion. One retailer expands his newspaper advertising, another takes on a radio or television program, while another enlarges his parking lot and provides boys to carry packages to customers' cars. Other competitors adopt giveaway programs, such as that of the A & P in Providence last winter when it gave away ten automobiles to bring in customers to its twenty-four stores in that area. That such give-away plans are not confined to the large chains is evident from Daitch-Shopwell promotion which, during a five week period, distributed $37,000 worth of prizes including motor boats, gas ranges, table lamps, and merchandise certificates.

> In brief, there are many kinds of promotional devices from which each retailer may select those best fitted to his type of operation. If we are to have the benefits of a competitive economy, we must recognize that promotion is inevitable and that trading stamps are one form of promotion.[1]

Mr. James F. Tobin, president of Wieboldt Stores, Inc. said:

> The trading stamp is one of the promotional tools that can be used to spur sales in a highly competitive business.[2]

Mr. Phillips and Mr. Tobin emphasize the promotional effect of trading stamps. The question arises, should trading stamps issued with the sale of merchandise or service be classified and handled as an advertising expense?

The Marketing Handbook defines advertising[3] as the presentation or offering of a commodity, service, process, idea, or institution, by methods other than personal selling, with the intention of inducing potential buyers, or those who influence purchases, to consider the offer

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[1]Charles F. Phillips, "A Testimony before the Consumers Study Sub-Committee of the House Committee on Agriculture," reprinted in the Sperry and Hutchinson Company, Trading Stamps and the Competitive Economy (New York, 1957), pp. 4-5.

[2]James F. Tobin, an interview by the Chicago Sun-Times, October 29, 1957.

[3]This thesis chose this definition of advertising in view of the conflicting definitions of advertising which exist in the marketing textbooks.

favorably and to give their patronage or favorable influence to the advertiser.[4]

To determine whether trading stamps may be properly classified as an advertising expense, let us turn to the advantages reaped from using trading stamps. The benefits a retailer receives from the use of trading stamps may include increased sales, improved margins and expense ratios, reduced credit sales, fewer markdowns, more even distribution of volume throughout the week, stabilized business, and sustained promotional effects.[5]

Increased sales volume is the most widely acclaimed benefit for retailers using trading stamps.[6] One of the prime purposes of advertising is to increase sales, thus, trading stamps from this standpoint might properly be classified as an advertising expense. Another prime objective of advertising is to introduce a new product. Again, the purpose for using trading stamps agrees with the purpose of advertising.[7]

As previously stated, trading stamps are one of the foremost inducements that retailers use to encourage customer

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[4]Nystrom, Marketing Handbook, p. 345.

[5]Vredenburg, Trading Stamps, p. 93.

[6]Ibid.

[7]Ibid.

patronage. Thus, it seems that the purpose for which retailers use trading stamps coincides with the purpose for advertising. In agreement with this, Mr. Blatt states:

> Trading stamps are a method of advertising as well as a premium, but they are in no way designed to take the place of any of the store's other advertising. The cost of the trading stamp plan is paid for through larger sales and a lower per cent of fixed overhead expenses.[8]

Mr. Phillips, in his testimony as presented at the beginning of this chapter, compared the use of trading stamps with that of newspaper, radio, and television advertising.

One of the main advantages advocated by the stamp companies for issuing trading stamps is its franchise nature.[9] Stamp franchises are usually extended to a small number of non-competing retailers in the marketing area. This tends to encourage the customer to make purchases among this group of stamp-issuing stores so books will be filled faster. Again, the customer pulling power of the trading stamp is emphasized, whether it be called advertising or not.

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[8]Robert Blatt, "Study of Retail Trading Stamp Plans," Unpublished Master's Thesis, University of Minnesota, Minneapolis, 1954, p. 73. Hereafter cited as Blatt, "Study of Retail Trading Stamp Plans."

[9]Rossi, Trading Stamps and Free Competition, p. 2.

Mr. Frank P. Rossi also compared trading stamps to advertising when he said:

> Trading stamps cannot be condemned on this score unless advertising and every other promotional instrument are condemned.[10]

The promotional impetus of trading stamps was emphasized by Mr. Harvey L. Vredenburg when he stated:

> The trading stamp is primarily a competitive promotional tool, working best when the consumer is faced with two or more places to purchase goods and/or services which are too similar to develop brand or product preference. In such market situations, the trading stamp may be the extra feature which directs patronage to one store.[11]

The above quotations emphasize the tendency to regard trading stamps as an advertising expense. This tendency may be the result of attempting to justify the practice of issuing trading stamps by comparing trading stamps with accepted forms of advertising. However, the promotional effect of trading stamps seems to strengthen the contentions of those who regard trading stamps as an advertising expense.

In the Printers' Ink chart for allocation of the advertising appropriations, trading stamps were not

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[10]Rossi, Trading Stamps and Free Competition, p. 2.

[11]Vredenburg, Trading Stamps, p. 69.

mentioned.[12] However, premiums were mentioned in the borderline charges, sometimes belonging in the advertising account and sometimes in other accounts, depending on circumstances.[13] Are trading stamps premiums? Mr. Blatt referred to trading stamps as a premium device.[14] Whether trading stamps should be called premiums is questionable, however, trading stamps are exchanged for premiums. Does this suggest that trading stamps should be classified and handled as premiums?

Legal Aspects

Very little has been said in the courts which will indicate that the cost of issuing trading stamps should be classified as an advertising expense. However, in the Lawton versus Stewart Dry Goods Company case, the judge did compare trading stamps to an attractive advertisement.[15] This comparison was made to show that to make the practice of issuing trading stamps illegal would also necessitate that advertising be declared illegal.

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[12] James D. Scott, Advertising Principles and Problems (New York, 1953), p. 791.

[13] Ibid.

[14] Blatt, "Study of Retail Trading Stamp Plans," p. 73.

[15] Lawton v. Stewart Dry Goods Co., 197 Ky. 394, 247 S.W. 14, 16, 26 A.L.R. 686.

In another case it was stated:

> If plaintiff's plan is a mere discount for cash it would seem dealers are unwise to pay so much for so little. The obvious fact is that plaintiff's (Sperry and Hutchinson Co.) plan is a promotion scheme designed to induce the public to purchase merchandise from its dealers exclusively and it appears plaintiff's agents so represent the plan to prospective licensees.[16]

Does a promotional scheme mean advertising? If so, the above statements also suggest that the cost of issuing trading stamps may be properly classified as an advertising expense.

Accounting Aspects

In accounting practice, the prevailing trend is to charge the cost of the trading stamps issued to some type of advertising or sales promotion account.[17] One accounting manual used extensively in the retail trade specifically recommended that they be charged to an expense center called "Total Advertising and Publicity."[18] This would seem to justify the accounting practice of handling the cost of trading stamps issued as an advertising expense.

The accounting method of handling advertising cost

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[16] Sperry and Hutchinson Company v. Hoegh.

[17] Simon, "Accounting for Trading Stamps," p. 401.

[18] Ibid.

requires that the cost of the stamps be set up in a current asset or deferred charge account when purchased. This practice is necessary for correct income determination and correct balance sheet presentation. The theories of correct income determination and balance sheet presentation were presented in Chapter II. At the end of each accounting period, the cost of the trading stamps issued should be debited to an advertising expense account and credited to the current asset or deferred charge account. This method of accounting for trading stamps will reflect the correct amount of stamps on hand each balance sheet date and will also recognize the cost of trading stamps issued. A general journal entry for recording the cost of trading stamps issued as an advertising expense is as follows:

Advertising Expense - Trading Stamps	xxxxx	
Inventory or Deferred Charge Account		xxxxx
To record the issuance of trading stamps with the sale of merchandise (or service).		

The cost of trading stamps issued should be kept in an advertising expense account separate from other advertising expenses in order to make proper comparisons of the trading stamp cost in relation to sales.

CHAPTER VI

STATEMENT PRESENTATION OF TRADING STAMPS

One of the major objectives of accounting is statement presentation for management, owners, and third parties. The purpose of the present chapter is to set forth the proper balance sheet and income statement presentation of trading stamps.

Balance Sheet Presentation

One possible balance sheet presentation of trading stamps is to classify them as a deferred charge and present them at the end of the asset section of the balance sheet as follows:

Deferred Charges:		
Development Cost	$xxxxx	
Trading Stamp Cost	xxxxx	$xxxxx

Let us turn to current accounting theory to determine if this presentation is acceptable. Mr. Kohler defines a deferred charge as an expenditure not recognized as a cost of operations of the period in which incurred, but carried forward to be written off in one or more future periods.[1] This definition seems to include the cost of trading stamps.

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[1]Kohler, A Dictionary for Accountants, p. 139.

Mr. Kohler further states:

> In recent years there has been a marked tendency to reduce the number of or eliminate deferred charges, other than a material item of prepaid expenses, from American balance sheets.[2]

Paton and Littleton state:

> In corporate reporting the term "deferred charge" is often used in the balance sheet to designate such dissimilar things as short-term prepayments for service, organization cost, cost of experiment and development, security discounts, balances in suspense, and actual losses. This is bad practice. Prepaid insurance, rent, etc., should be labeled as such and listed either as current or semi-current resources.[3]

The above discussion indicates that the cost of trading stamps should not be classified as a deferred charge.

Another balance sheet classification for trading stamps is as a current asset. Current assets include cash and other assets, such as temporary investments in securities, accounts and notes receivable, inventory, and prepaid expenses, that presumably will be converted into cash or used during a normal operating cycle.[4] This classification definitely

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[2]Kohler, A Dictionary for Accountants, p. 140.

[3]Paton and Littleton, An Introduction to Corporate Accounting Standards, p. 74.

[4]Finney and Miller, Principles of Accounting, p. 100; Sherwood, Carson, and Boling, College Accounting, p. 199; George A. McFarland and Robert D. Ayers, "Accounting Fundamentals," quoted in Standard Handbook for Accountants, ed. J. K. Lasser (New York, 1956), pp. 9-10.

includes trading stamps. Trading stamps held for issuance represent an asset that will probably be consumed in a relatively short time. Trading stamps, therefore, would be classified as a prepaid expense and shown in the current asset section of the balance sheet as follows:

Current Assets:		
Cash	$xxxxx	
Temporary Investments	xxxxx	
Accounts Receivable	xxxxx	
Merchandise Inventory	xxxxx	
Trading Stamps	xxxxx	
Prepaid Insurance	xxxxx	
Office Supplies	xxxxx	$xxxxx

Income Statement Presentation

The concept that the cost of trading stamps issued should be regarded as a cash discount would require that this cost be deducted from gross sales to arrive at net sales. The theories supporting this concept were presented in Chapter III. The following is an illustration of the proper income presentation of trading stamp cost as a cash discount:

Gross Sales:		$xxxxx
Sales Returns and Allowances	$xxxxx	
Less:		
Cost of Trading Stamps Issued	xxxxx	xxxxx
Net Sales		$xxxxx

A second concept for handling the cost of trading stamps issued with merchandise sales was as an advertising expense. The theories of this concept were presented in Chapter V. A proper income statement presentation of trading stamps as an advertising expense would be as follows:

Selling Expenses:

Store Rent		$xxxxx	
Advertising:			
Trading Stamps	$xxxxx		
Other	xxxxx	xxxxx	
Salesmen Salaries		xxxxx	
Other Selling Expenses		xxxxx	$xxxxx

A third method for handling the cost of trading stamps issued was as a trade discount. As noted in Chapter IV, accounting does not record trade discounts in the accounts; therefore, trade discounts are not presented on the income statement.

CHAPTER VII

INTERNAL CONTROL OF TRADING STAMPS

Trading stamps can be exchanged for merchandise at any redemption center as cash is used to purchase merchandise elsewhere. The size of the stamps facilitates their concealment by any person desiring to steal them. The nature of trading stamps necessitates the greatest possible internal control, but the cost of maintaining proper internal control can be greater than the cost of the stamps. The question arises, how should trading stamps be controlled without incurring a cost greater than the cost of the stamps?

Loss Possibilities

Trading stamps are subject to losses in issuance, theft by outsiders, and theft by employees. The size of the trading stamp makes losses possible when counting the stamps to be issued to the ultimate consumer. Issuing a few extra stamps to a friend is another cause of loss in issuance.

Theft by outsiders may occur as a result of a break-in. Outsiders may also steal stamps from unattended checking counters, or from unprotected store rooms.

Theft by employees is probably the greatest cause of trading stamp losses. The greatest possibility for employees to illegally acquire stamps is when a customer

neglects to secure his trading stamps. The employees, in such a situation, can take the trading stamps without their theft being detected unless a strong system of internal control exists.

Proper Controls

Three control features which are important to the internal control of trading stamps are:

1. Accountability for the trading stamps should be fixed. An employee who is being held accountable for the trading stamps will endeavor to prevent any losses knowing that he personally will be held responsible for any losses.

2. The accounting records and the physical control of the trading stamps should be separated. An employee who has control of the accounting records and physical control of the stamps could alter the accounting records to prevent detection of any improper mishandling of the trading stamps.

3. No one person should be in complete charge of ordering, receiving, and issuing the trading stamps. Errors are likely to occur in any of the above procedures, but the probability is that an error will be discovered if separate persons are in charge of ordering, receiving, and issuing the trading stamps.

The large retail firm is able to segregate the duties of its employees so as to accomplish adequate internal control over the trading stamps. However, in the small retail firm, only a few employees are available to carry out the functions of the firm. In a situation of the small establishment, closer supervision by the owner or manager will be

required to insure proper internal control of the trading stamps.

Reports

Reports are also an integral part of a good internal control system. This is especially true as the size of the retail firm increases. The larger the firm, the less likely management is able to observe the actual operations; therefore, they must rely on reports for the information desired.

A suitable report setting forth the pertinent information for internal control of trading stamps is as follows:[1]

Store Report on Trading Stamps

Store No. _____

Week Ending _____

(Show figures in Dollars Value at 10¢ per Stamp)

Beginning trading stamp inventory		$ _____
Trading stamps purchased during week		_____
Total trading stamps available for issuance		_____
Less ending trading stamp inventory		_____
Trading stamps issued during week		_____
Store and market sales-week	$ _____	
Double stamp day sales	_____	
Total sales		_____
Long - Short (trading stamps)		$ _____

Checked by _____
Store Manager

[1]Permission to use this report was secured from Mr. Melvin Hoelscher, Assistant Secretary, Davis and Humphries, Inc.

The preceding report should go to the accounting office for the following checks:

1. The beginning inventory should be compared with the ending inventory.

2. Trading stamps purchased should be compared with the actual invoices received from trading stamp companies, or compared with issuing records in cases where a central issuing office is maintained.

3. The mathematical correctness of the total trading stamps available for issuance should be ascertained.

4. Surprise checks of the ending inventory may be taken by internal auditors, or by someone from the accounting office to insure the proper statement of ending inventories.

5. The mathematical correctness of the ending trading stamp inventory should be ascertained.

6. The sales figures as presented may be checked by referring to the sales journal.

7. The overage or shortage of trading stamps may be ascertained by computing the number of stamps which should have been issued with the sales for the week and comparing this with the trading stamps actually issued. Because some retail purchasers do not accept their trading stamps, each report should show an overage. A perpetual recap of overages or shortages should be useful in obtaining a norm of what the overage should be for each store. A large divergency from this norm would suggest the need for further investigation.

A loss of trading stamps could be obscured by understating the beginning trading stamp inventory. This can be detected by comparing the beginning inventory of the present period with the ending inventory of the preceding period. A comparison of the purchase invoices with the purchases shown on the report will prevent obscurity of

losses by understating purchases. The accuracy of the trading stamps issued may be checked by comparison with the total sales shown on the report. The accuracy of the sales shown on the report may be ascertained by comparison with the sales as reported in the sales journal. Surprise counts of the trading stamps on hand will help to prevent misappropriation of stamps even if the intent is to replace them later.

Physical Inventorying of Trading Stamps

As previously stated, trading stamps are very small in physical size. Hence, the physical counting of the trading stamps would entail an enormous amount of time, and the cost of doing so might exceed the cost of the stamps on hand. Since trading stamps are purchased in pads of 5,000, the counting of each pad and multiplying by the cost of each pad would not require too much time. However, precautions should be taken to insure that stamps have not been removed from the pads. One retail grocery firm attempts to overcome this situation by binding a set number of pads in a package which is sealed.[2] A broken seal would indicate that the package has been tampered. Another retail grocery firm weighs its trading stamps (pads and loose stamps), and multiplies this weight by $100 per ounce

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[2]This practice is followed by Davis and Humphries, Inc., a retail grocery firm located in the West Texas area.

as a means of taking its trading stamp physical inventory.[3] The management of this firm contends that most of the disadvantages of this procedure are overcome by the saving of time brought about by this procedure.

[3]This practice is followed by Furr's, Inc., a retail grocery firm located in the West Texas area.

CHAPTER VIII

SUMMARY AND CONCLUSIONS

Summary

The use of trading stamps in the American retail business has grown with appalling vigor since its beginning in the 1890's. Despite this phenomenal growth, accounting literature has virtually ignored the accounting aspects of trading stamps. The purpose of this thesis is to supplement accounting literature relating to trading stamps.

Once a retailer has decided to use trading stamps, he must consider the acquisition of the stamps. Three important factors to be considered are (1) present trading stamp needs, (2) volume discounts offered by the trading stamp company, and (3) most profitable employment of funds. All three factors should be considered in the light of each other. Trading stamps when purchased represents an asset which should be accounted for as such. The purchase of the trading stamps should be recorded by debiting a current asset or deferred charge account and crediting cash or accounts payable. Upon issuing the trading stamps with the sale of merchandise or service, an expense or contra sales account should be debited, and the current asset or deferred charge account should be credited.

Three concepts for handling the cost of trading stamps issued with the sale of merchandise or service are

(1) cash discount, (2) trade discount, and (3) advertising expense. The majority of the court decisions have indicated that the cost of trading stamps issued with a sale of merchandise or service is the equivalent of granting a cash discount. One recent court decision refuted this by saying that the cost of trading stamps issued with the sale of merchandise or service is equivalent to granting a trade discount, as well as a cash discount. The marketing concept of a cash discount does not include trading stamps issued with cash sales of merchandise or service. Trading stamps issued for prompt payment of accounts receivable does qualify for a cash discount by the marketing concept of a cash discount. In accounting practice, the prevailing trend is to debit an advertising or promotional expense account for the cost of trading stamps issued with the sale of merchandise or service.

One of the major objectives of accounting is financial statement presentation for management, owners, and third parties. Since trading stamps represent an asset when purchased, and an expense or contra sales account when issued, they must be shown on the balance sheet and the income statement. Two possible balance sheet presentations of trading stamps are (1) current asset, and (2) deferred charge. Two possible income statement presentations of trading stamps are (1) contra sales account, and (2) advertising expense.

The nature of trading stamps necessitates the greatest possible internal control. Trading stamps are subject to losses in issuance, theft by outsiders, and theft by employees. Three control features which are important to the internal control of trading stamps are (1) accountability for trading stamps should be fixed, (2) the accounting records and physical control of the trading stamps should be separated, and (3) no one person should be in complete charge of ordering, receiving, and issuing the trading stamps. Reports are also an integral part of a good internal control system.

Conclusions

Trading stamps when purchased should be classified as a prepaid expense and shown in the current asset section of the balance sheet.

The classification of the cost of trading stamps issued with the sale of merchandise or service depends upon the purpose for which the retailer adopted the trading stamp plan. The retailer who uses trading stamps as a means of encouraging prompt payment of accounts receivable should classify and handle the cost of the trading stamps issued as a cash discount. Thus, the cost of the trading stamps issued should be debited to a contra sales account. The contra sales account should be shown on the income statement

as a deduction from sales.

The retailer who uses trading stamps as a promotional tool should classify and handle the cost of the stamps issued as an advertising expense. The cost of the trading stamps issued should be shown in the selling expense section of the income statement.

Retailers do not use trading stamps as a means of quoting a selling price to the ultimate consumer; therefore, trading stamps should not be classified as a trade discount.

An internal control system should be followed which will insure adequate financial statements for owners, management, and third parties. An inventorying method should be adopted which is economical and accurate for proper internal control.

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